



# AUTOMATIC ADJUSTMENT CLAUSES (Trackers) For The Energy & Water Industries

Report to the Regulatory Flexibility Committee  
of the

Indiana General Assembly

by

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# The Rationale for Trackers

At the outset, trackers are not inherently good or bad. Generally trackers are enacted by state legislatures to give commissions a tool to help achieve an appropriate balance that allows utilities to recover certain costs without a rate case.

# The Rationale for Trackers

The criteria include costs that:

1. Are largely outside the control of utilities (e.g., fuel and capital costs),
2. Experience considerable price volatility,
3. Are significant in magnitude.

# The Rationale for Trackers

- 4. Trackers were adopted to reduce the frequency of expensive and time-consuming rate cases
- 5. No profit on expenses (e.g., cost of fuel)
- 6. Trackers tend to have a positive effect on the utilities' financial ratings

# Some Concerns About Trackers

1. *Eliminating* rate cases may not be a good thing
2. Trackers may violate the principle that regulatory commissions should not guarantee profitability

# Some Concerns About Trackers

3. Trackers may unduly shift financial risks to customers
4. Trackers should reduce the cost-of-capital and the allowed return but this has not been done
5. Utilities may have less incentive to keep *all* costs as low as possible

# Some Concerns About Trackers

7. Trackers may bias decision-making
8. Utilities may seek trackers for increasing costs while not seeking trackers for decreasing costs
9. The utility may have some control over costs (e.g., dealing with aging infrastructure, some fuel costs...)

# Some Concerns About Trackers

10. Trackers are not subject to significant review
11. Trackers make the billing more confusing (e.g., the time lag between when the usage occurs and the bill is received)



# A Brief History of Legislatively Mandated Trackers

The primary source of authority for trackers emanates from the General Assembly.

- The most often mentioned trackers are:
  - The Fuel Adjustment Clause (FAC) I.C. §8-1-2- 42
  - The Gas Cost Adjustment Clause (GCA) I.C. §8-1-2- 42

**Both were enacted by the General Assembly in 1975 in response to oil embargos and extreme price volatility**

## A Brief History of Legislatively Mandated Trackers

- Over the last several years, the importance of environmental trackers has increased  
I.C. § 8-1-8.8 and I.C. §8-1-2.6.6
- Power-Plant construction  
(including Clean Coal) I.C. §8-1-8.8

# Legislatively Permissible Trackers

- I.C. §8-1-2-42 and I.C. §8-1-2-42.1
- Alternative Utility Regulation (Alt Reg) I.C. § 8-1-2.5
  - Power Purchases (non-fuel) – Duke and SIGECO
  - RTO Related Costs

(more)

# Legislatively Permissible Trackers

- Alternative Utility Regulation  
(Alt Reg) I.C. § 8-1-2.5 (Continued)
  - Demand-Side Management
  - Gas Decoupling / Conservation

Alt Reg Statute may need to be “modernized”

# Example – The Rate Effect of Environmental Trackers

- Except for Duke, through 2006, “Base Rates” have not increased in the past 5 years, trackers have increased the rates paid by Indiana customers.
- From 2002- 2006, the cumulative effect of Environmental Trackers on operating revenues was approximately \$390 million.

# Example – The Rate Effect of Environmental Trackers

- From 2002-2006, cumulative capital expenditures in excess of \$2 billion for environmental compliance were flowed through trackers.

# Current Electric Trackers - 5 IOUs

- AEP – I&M
- AES – IPL
- Duke – Duke Energy Indiana
- NiSource – NIPSCO
- Vectren - SIGECO

# Current Electric Trackers – I&M

- Fuel Adjustment Clause
- Merger Savings (Settlement)



# Current Electric Trackers – IPL

- Fuel Adjustment Clause
- Qualified Pollution Control
  - Capital Cost
  - Operations & Maintenance Expenses
- Demand-Side Management
- Air Conditioning Load Management

# Current Electric Trackers – DUKE

- Fuel Adjustment Clause
- Qualified Pollution Control
  - Capital Cost
  - Operations & Maintenance Expense
- Emissions Allowances
- Demand-Side Management
- Midwest ISO Tracker
- Summer Reliability Purchases

# Current Electric Trackers – NIPSCO

- Fuel Adjustment Clause
- Qualifying Pollution Control
  - Capital
  - Operations and Maintenance Expenses
- Customer Credit (Settlement)

# Current Electric Trackers – SIGECO

- Fuel Adjustment Clause
- MISO Cost and Revenue Adjustment
- Reliability Cost and Revenue Adjustment
- Qualified Pollution Control (Multi-Pollutant)
  - Capital Costs
  - Operations & Maintenance Expenses
- Demand-Side Management

# Current Gas Trackers - 4 Largest

- Citizens Gas
- NiSource – NIPSCO
- Vectren North - Indiana Gas
- Vectren South - SIGECO

# Current Gas Trackers- Citizens

- Energy Efficiency Rider (EERs)
- Normal Temperature Adjustment (NTAs)
- GCA

# Current Gas Trackers- NIPSCO

- Energy Efficiency Rider
- GCA

# Current Gas Trackers- Indiana Gas

- Pipeline Safety (federal)
- Energy Efficiency Rider
  - Sales Reconciliation Component
  - Energy Efficiency Funding Component
- Normal Temperature Adjustment
- GCA



# Current Gas Trackers- SIGECO

- Pipeline Safety (federal)
- Energy Efficiency Rider
  - Sales Reconciliation Component
  - Energy Efficiency Funding Component
- Normal Temperature Adjustment
- GCA

# Water Industry Trackers

**Distribution System Improvement Charge (DSIC)**  
to allow water utilities to recover cost of  
investment in the water distribution systems  
outside of a rate case.

# Water Industry Trackers

- DSICs Created by the General Assembly in 2000 (IC 8-1-31)
  - Mainly to expedite cost recovery of aging infrastructure replacement (old pipes)
  - Provides for recovery of return & depreciation
  - DSIC does not apply to Wastewater utilities

# Water Industry Trackers

DSIC has been used by 4 water companies since its legislative creation:

Indiana American (large)

Utility Center (medium)

Indiana Water Service, Inc (small)

Water Service Company of Indiana (small)

**Total additional revenue generated by above DSIC filings is about \$4.9 million**

# Water Industry Trackers

- In addition to DSIC, there are also purchased water trackers for the small water utilities that purchase their water from another utility.
- This tracker does not have specific enabling legislation, but was developed following a Commission investigation and was adopted as a rule (170 IAC 6-5) by the Commission in 1990.

# Potential Trackers?

- Profit Guarantees (Margin Adjustment)
- Transmission Investment Recovery
- Renewable Portfolio Standards

# Potential Trackers?

- Performance-Based Standards
  - Reliability
  - Conservation
  - Advanced Metering

# Potential Trackers?

- Aging Infrastructure
- Aging Workforce / Training
- Chemicals
- Purchased Power Expenses for Water Utilities



# Final Observations

- Trackers are neither good or bad. Properly designed, they can be a useful tool in achieving a regulatory balance.
- The existing authorities, including Alt Reg, are sufficient.

# Final Observations

- If the General Assembly deems that additional cost recovery is required, the Commission hopes that it will vest the Commission with sufficient latitude to shape the mechanism and monitor the effects.
- The Commission is YOUR resource. We welcome the opportunity to work with you.